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LOCAL AUDIT & FINANCE DIV.

VILLAGE OF ARMADA

Macomb County, Michigan

AUDITED FINANCIAL STATEMENTS

For The Year Ended March 31, 2004

50-3010

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968 as amended. Filing is mandatory

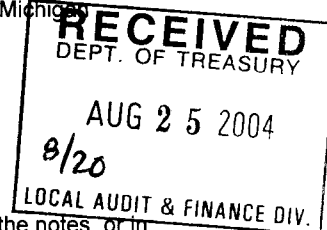
Local Government Type		Local Government Name		County
<input type="checkbox"/> City	<input type="checkbox"/> Township <input checked="" type="checkbox"/> Village	Other: Village of Armada		Macomb
Audit Date	Opinion Date	Date Accountant Report Submitted to State.		
3/31/04	6/01/04	8/05/04		

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements of Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have compiled with the Bulletin for the Audits of Local Units of Government in Michigan as revised.
2. We are certified public accountants registered to practice in Michigan

We further affirm the followin "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.



You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this units unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:

The letter of comments and recommendations.

Reports on individual federal financial assistance programs (program audits).

Single Audit Reports (ASLGU).

Enclosed	To Be Forwarded	Not Required
<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name)			
McBride, Manley & Miller PC			
Street Address		City	State
PO Box 26		Marine City	MI
Accountant Signature		Zip	
[Signature]		48039	
8/20/04			

VILLAGE OF ARMADA

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VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2004

Using this Annual Report

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Village as a whole and present a longer-term view of the Village's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Village's operations in more detail than the government-wide financial statements.

The Village as a Whole

The Village's combined net assets increased 5.3% from a year ago from \$6,156,000 to \$6,482,000. As we look at the governmental activities separately from the business-type activities, we can see that the governmental activities net assets increased by approximately \$132,000 during the year (10.2% increase). This was the result of an increase in Municipal Street Fund net assets. The business-type activities experienced a \$194,000 increase in net assets, primarily as a result of operating net revenues of \$144,000. In a condensed format, the table below shows a comparison of the net assets (in thousands of dollars) as of the current date to the prior year:

(in thousands of dollars)

	Governmental Activities		Business-Type Activities		Total	
	2003	2004	2003	2004	2003	2004
Current Assets	\$ 1,188	\$ 1,262	\$ 1,354	\$ 1,887	\$ 2,542	\$ 3,121
Noncurrent Assets	243	370	4,842	4,956	5,085	5,294
Total Assets	1,431	1,632	6,196	6,843	7,627	8,415
Long-Term Debt Outstanding	-	49	1,050	882	1,050	900
Other Liabilities	143	162	279	900	422	1,034
Total Liabilities	143	211	1,329	1,782	1,472	1,934
Net Assets						
Invested in Capital Assets - Net of Debt	224	278	3,622	3,746	3,846	4,024
Restricted	82	54	279	267	361	321
Unrestricted	983	1,089	966	1,048	1,949	2,137
Total Net Assets	\$ 1,289	\$ 1,421	\$ 4,867	\$ 5,061	\$ 6,156	\$ 6,482

Unrestricted net assets--the part of net assets that can be used to finance day to day operations, increased by \$106,000 for the governmental activities. This represents an increase of approximately 10.8%. The current level of unrestricted net assets for our governmental activities stands at \$1,089,000, or about 139% of expenditures. This exceeds the targeted range set by the Village during its last budget process.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2004

The following table shows the changes in net assets (in thousands of dollars) as of the current date.

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
Program Revenues			
Charges for Services	\$ 63	\$ 751	\$ 814
Operating Grants and Contributions	107	--	107
Capital Grants and Contributions	--	50	50
General Revenues			
Property Taxes	533	--	533
State-Shared Revenues	169	--	169
Unrestricted Investment Earnings	14	7	21
Other	32	--	32
Total Revenues	<u>918</u>	<u>808</u>	<u>1,726</u>
Program Expenses			
General Government	128	--	128
Public Safety	333	--	333
Public Works	216	--	216
Legislative	13	--	13
Community and Economic Development	2	--	2
Recreation and Culture	1	--	1
Other	92	--	92
Debt service	1	--	1
Water	--	152	152
Sewer	--	462	462
Total Expenses	<u>786</u>	<u>614</u>	<u>1,400</u>
Change in Net Assets	\$ <u>132</u>	\$ <u>194</u>	\$ <u>326</u>
Change in Net Assets Prior to Capital Contributions		\$ <u>144</u>	\$ <u>276</u>

The Village of Armada adopted GASB 34 at March 31, 2004, therefore prior year data is not available for comparison.

The Village's net assets continue to remain healthy. Net assets grew by \$326,000. This was primarily because excess revenues in the Municipal Street Fund and Water and Sewer Utility Funds.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2004

Governmental Activities

Since this is the first year that the Village's financial data has been determined under GASB 34, comparisons to previous periods are not available.

Business-Type Activities

The Village's business-type activities consist of the Water and Sewer Funds. The Village provides water and sewer to all Village residents (approximately 1,600). The Village experienced an increase in our net operating income. This was due primarily to an increase in usage by residents, including additional homes in completed sub-divisions.

The Village's Funds

Our analysis of the Village's major funds begins on page 5, following the entity wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the Village as a whole. The Village creates funds to help manage money for specific purposes as well as to show accountability for certain activities, such as special property tax millages. The Village's major funds include the General Fund, the Major Street Fund, the Local Street Fund, and the Municipal Street Fund.

The General Fund pays for most of the Village's governmental services. The most significant are public safety, general government, and public works, which incurred expenses totaling approximately \$629,000. These three functions are primarily supported by property taxes and State shared revenues.

General Fund Budgetary Highlights

Over the course of the year, the Village did not amend the budget. Departments overall stayed within budget, resulting in total expenditures \$772,000. The only significant expenditure in excess of those in the budget was approximately \$63,000 in excess expenses for DPW equipment. This caused the General Fund's fund balance to decrease from \$372,000 a year ago to \$348,000 at March 31, 2004.

Capital Asset and Debt Administration

At the end of March 31, 2004, the Village had \$5,268,000 invested in a broad range of capital assets, including buildings, police, public works equipment, and water and sewer lines. In addition, the Village has invested significantly in roads within the Village. Roads constructed prior to April 1, 2003 are not reported on the Village's financial statements.

VILLAGE OF ARMADA

Management's Discussion and Analysis

March 31, 2004

Economic Factors and Next Year's Budgets and Rates

The Village budget for the year including March 31, 2005 does not anticipate an increase in property tax rates. Because of the impact of Proposal A, however, the Village needs to continue to watch its budget very closely. The state-wide tax reform act limits growth in taxable value on any individual property to the lesser of inflation or 5%. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the Village may grow less than by inflation, before considering new property additions.

Water and sewer rates are scheduled to rise at the rate of increase in the Consumer Price Index on an annual basis.

The Village of Armada has entered into a low interest loan agreement through the State of Michigan Drinking Water Revolving Fund in the amount of \$3,750,000. These funds will be used to construct a new water filtration plant and other water system improvements. The Village has also budgeted capital expenditures for street and sewer line improvements. The additional projects are to be funded using the Village's unrestricted fund balance and amount to approximately \$830,000. There will be an increase in water rates to accommodate the repayment of the DWRF bonds over a 20 year period.

Contacting the Village's Management

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Village's finances and to show the Village's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the clerk's office.



**McBride, Manley
& Miiller P.C.**

Certified Public Accountants

INDEPENDENT AUDITORS' REPORT

June 1, 2004

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of and for the year ended March 31, 2004, which collectively comprise the Village's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Village of Armada's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Village has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion Analysis - for State and Local Governments*, as of March 31, 2004.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the Village of Armada, as of March 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis on pages i through iv are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Village of Armada's basic financial statements. The accompanying supplemental information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Our report of comments and recommendations dated June 1, 2004, has been submitted under separate cover.

Respectfully submitted,



McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants

VILLAGE OF ARMADA
STATEMENT OF NET ASSETS

March 31, 2004

ASSETS	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
CURRENT ASSETS				
Cash in bank	\$ 985,190	\$ 503,188	\$ 1,488,378	\$ 622
Restricted cash	—	893,499	893,499	—
Investments - restricted	—	266,735	266,735	—
- unrestricted	68,100	—	68,100	—
Prepaid expenses	26,397	10,767	37,164	—
Internal balances - current*	21,712	6,252	—	—
Due from DDA	7,500	—	7,500	—
Fund assets in agency fund	87,833	41,083	128,916	—
Due from County	24,153	—	24,153	—
Due from State of Michigan	23,344	—	23,344	—
Accounts receivable other	14,099	—	14,099	—
Restricted receivables	—	33,916	33,916	—
Accounts and contributions receivable (net of allowance of \$729)	—	126,127	126,127	—
Assessments receivable	572	—	572	—
Personal property taxes receivable	3,244	—	3,244	—
Bond discount	—	5,531	5,531	—
Total Current Assets	1,262,144	1,887,098	3,121,278	622
OTHER ASSETS				
Amortizable bond fees	—	25,897	25,897	—
Internal balances*	32,031	—	—	—
Capital assets, net of accumulated depreciation	337,489	4,930,161	5,267,650	—
Total Assets	\$ 1,631,664	\$ 6,843,156	\$ 8,414,825	\$ 622
LIABILITIES				
CURRENT LIABILITIES				
Accounts payable	\$ 33,038	\$ 86,907	\$ 119,945	\$ —
Accrued interest	1,732	—	1,732	—
Internal balances - current*	6,252	21,712	—	—
Due to Village	—	—	—	7,500
Deposit retention	9,374	—	9,374	—
Accrued wages, vacation, and sick pay	46,811	6,776	53,587	—
Current portion of leases and notes payable	10,210	785,000	795,210	—
Deferred revenue	54,209	—	54,209	—
Total Current Liabilities	161,626	900,395	1,034,057	7,500
NONCURRENT LIABILITIES				
Long-term obligations net of current portion	49,391	425,104	474,495	—
Internal balances*	—	32,031	—	—
Bond to be paid from restricted assets	—	424,896	424,896	—
Total Liabilities	\$ 211,017	\$ 1,782,426	\$ 1,933,448	\$ 7,500
NET ASSETS				
Investment in capital assets, net of related debt	\$ 277,888	\$ 3,745,954	\$ 4,023,842	\$ —
Restricted	53,743	266,735	320,478	—
Unrestricted	1,089,016	1,048,041	2,137,057	(6,878)
Total Net Assets	\$ 1,420,647	\$ 5,060,730	\$ 6,481,377	\$ (6,878)

* amounts have been offset in the total column

See accompanying notes.

VILLAGE OF ARMADA

STATEMENT OF ACTIVITIES

For the year ended March 31, 2004

	Program Revenues				Net (Expense)		
	Expenses	Charge for Services	Operating Grants and Contributions	Capital Grants and Contributions	Revenue		
					Governmental Activities	Primary Government Business-type Activities	Total
Primary Government:							
Governmental Activities:							
General government	\$ 127,813	\$ --	\$ 2,137	\$ --	\$ (125,676)	\$ --	\$ (125,676)
Legislative	13,243	--	--	--	(13,243)	--	(13,243)
Public safety	333,262	46,443	2,589	--	(284,230)	--	(284,230)
Community and economic development	2,179	--	--	--	(2,179)	--	(2,179)
Public works	216,422	16,685	102,255	--	(97,482)	--	(97,482)
Recreation	736	--	--	--	(736)	--	(736)
Other	92,232	--	--	--	(92,232)	--	(92,232)
Debt service	1,255	--	--	--	(1,255)	--	(1,255)
Total governmental activities	787,142	63,128	106,981	--	(617,033)	--	(617,033)
Business-type Activities:							
Water	151,971	207,528	--	--	--	55,557	55,557
Sewer	462,057	543,899	--	50,000	--	131,842	131,842
Total business-type activities	614,028	751,427	--	50,000	--	187,399	187,399
TOTAL PRIMARY GOVERNMENT	\$ 1,401,170	\$ 814,555	\$ 106,981	\$ 50,000	\$ (617,033)	\$ 187,399	\$ (429,634)
Component Unit:							
Downtown development authority	\$ 7,877	\$ --	\$ --	\$ --			\$ (7,877)
TOTAL COMPONENT UNIT	\$ 7,877	\$ --	\$ --	\$ --			\$ (7,877)
General Purpose Revenues:							
Property taxes					533,572	--	533,572
State shared revenues					169,181	--	169,181
Investment earnings					13,751	6,768	20,519
Other					32,240	--	32,240
TOTAL GENERAL PURPOSE REVENUES					748,744	6,768	755,512
CHANGE IN NET ASSETS					131,711	194,167	325,878
NET ASSETS AT APRIL 1, 2003					1,288,936	4,866,563	6,155,499
NET ASSETS AT MARCH 31, 2004					\$ 1,420,647	\$ 5,060,730	\$ 6,481,377
							\$ (6,878)

See accompanying notes.

VILLAGE OF ARMADA
BALANCE SHEET -
GOVERNMENTAL FUNDS

March 31, 2004

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
ASSETS					
Cash in bank	\$ 346,429	\$ 201,935	\$ 7,066	\$ 429,760	\$ 985,190
Investments	--	--	--	68,100	68,100
Due from other funds	108,058	--	1,428	77,229	186,715
Due from County	24,153	--	--	--	24,153
Due from State of Michigan	--	14,078	4,978	--	19,056
Accounts receivable other	14,099	--	--	--	14,099
Assessments receivable	--	--	--	572	572
Personal property taxes receivable	2,340	--	--	904	3,244
TOTAL ASSETS	\$ 495,079	\$ 216,013	\$ 13,472	\$ 576,565	\$ 1,301,129
LIABILITIES					
Accounts payable	\$ 11,323	\$ 19,365	\$ 149	\$ 2,201	\$ 33,038
Due to other funds	43,891	--	--	--	43,891
Deposit retention	4,374	--	--	5,000	9,374
Accrued wages	30,618	554	487	--	31,659
Deferred revenue	56,549	--	--	904	57,453
TOTAL LIABILITIES	146,755	19,919	636	8,105	175,415
FUND EQUITY					
Reserved	53,743	--	--	--	53,743
Unreserved, undesignated	294,581	196,094	12,836	568,460	1,071,971
TOTAL FUND EQUITY	348,324	196,094	12,836	568,460	1,125,714
TOTAL LIABILITIES AND FUND EQUITY	\$ 495,079	\$ 216,013	\$ 13,472	\$ 576,565	\$ 1,301,129

See accompanying notes.

VILLAGE OF ARMADA

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS**

March 31, 2004

Total Fund Balance - Governmental Funds	\$	1,125,714
---	----	-----------

Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.

Cost of capital assets	\$	725,799	
Less: accumulated depreciation		<u>(388,310)</u>	
Net Capital Assets			337,489

Delinquent personal property taxes receivable, federal grant revenues receivable and interest income receivable were not available soon enough after year end to pay the current period expenditures, and therefore are deferred in the governmental funds.

7,532

Prepaid expenses are not recorded in the governmental funds.

26,397

Long-term liabilities, including loans payable, are not due in the current period and therefore are not reported as liabilities in the governmental funds.

Loans payable	(59,601)	
Accrued interest on loans	(1,732)	
Compensated absences	<u>(15,152)</u>	
Total Long-Term Liabilities		<u>(76,485)</u>

Total Net Assets - Governmental Activities	\$	<u>1,420,647</u>
--	----	------------------



VILLAGE OF ARMADA

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

For the year ended March 31, 2004

	General	Major Street Fund	Local Street Fund	Municipal Street Fund	Total Governmental Funds
Revenues:					
Tax collections	\$ 380,669	\$ --	\$ --	\$ 152,261	\$ 532,930
County pass-through reimbursement grant	2,137	--	--	--	2,137
Distributions from State of Michigan	171,770	72,407	25,560	--	269,737
Licenses, permits, fines, and fees	46,443	--	--	16,685	63,128
Interest earned	10,985	932	88	1,746	13,751
Miscellaneous revenue	36,129	--	--	--	36,129
Proceeds from lease	74,430	--	--	--	74,430
Intergovernmental	18,800	--	--	--	18,800
TOTAL REVENUES	741,363	73,339	25,648	170,692	1,011,042
Other Financing Sources:					
Transfers from other funds	--	--	15,000	--	15,000
TOTAL REVENUES AND OTHER FINANCING SOURCES	741,363	73,339	40,648	170,692	1,026,042
Expenditures:					
Legislative	13,243	--	--	--	13,243
General government	163,118	1,940	2,500	1,870	169,428
Public safety	321,091	--	--	57,539	378,630
Community and economic development	2,179	--	--	--	2,179
Public works	144,311	85,174	52,997	--	282,482
Recreation	736	--	--	--	736
Other	92,232	--	--	--	92,232
Debt service - principal	33,554	--	--	--	33,554
- interest	1,255	--	--	--	1,255
TOTAL EXPENDITURES	771,719	87,114	55,497	59,409	973,739
Other Financing Uses:					
Transfers to other funds	--	--	--	15,000	15,000
TOTAL EXPENDITURES AND OTHER FINANCING USES	771,719	87,114	55,497	74,409	988,739
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES AND OTHER USES	(30,356)	(13,775)	(14,849)	96,283	37,303
Net Effect of Change in Accounting Principle	6,294	--	--	--	6,294
Fund Balance at April 1, 2003	372,386	209,869	27,685	472,177	1,082,117
FUND BALANCE AT MARCH 31, 2004	\$ 348,324	\$ 196,094	\$ 12,836	\$ 568,460	\$ 1,125,714

See accompanying notes.



VILLAGE OF ARMADA

RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE
WITH THE STATEMENT OF ACTIVITIES

March 31, 2004

Total Net Change in Fund Balances - Governmental Funds		\$ 43,597
<p>Capital outlays to purchase or build capital assets are reported in the governmental funds as expenditures. However, for government activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expenses in the statement of net activities. Proceeds from the sale of capital assets are reported as revenue in the governmental funds. For government activities, these proceeds are reduced by the net book value of disposed assets to provide the gain or loss on sale of such assets in the statement of net activities.</p>		
Capital outlay	\$ 75,333	
Fixed asset acquired by capital lease	74,430	
Less: depreciation	<u>(55,488)</u>	94,275
<p>Delinquent personal property taxes receivable, federal grant revenues receivable and interest income receivable were not available soon enough after year end to pay the current period expenditures, and therefore are deferred in the governmental funds.</p>		
		4,930
<p>Prepaid expenses are not recorded in the governmental funds.</p>		
		25,037
<p>Repayment of loan principal is an expenditure, and loan proceeds are revenue in the governmental funds. Proceeds increase and repayments decrease liabilities in the statement of net assets and do not affect the statement of activities.</p>		
Loan principal payments	\$ 33,554	
Loan proceeds	<u>(74,430)</u>	(40,876)
<p>Compensated absences are measured by the amount earned in the statement of activities. In the governmental funds, these items are measured by financial resources used.</p>		
		5,330
<p>Interest expenditures are recorded when financial resources are used in the governmental funds. Interest expense is recognized as the interest accrues regardless of when it is due.</p>		
		(582)
Change in Net Assets of Governmental Activities		<u>\$ 131,711</u>

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

March 31, 2004

	Sewer Fund	Water Fund	Total Proprietary Funds
ASSETS			
CURRENT ASSETS			
Cash - checking	\$ 326,982	\$ 176,206	\$ 503,188
Restricted cash	315,428	578,071	893,499
Restricted investments	266,735	--	266,735
Prepaid expenses	5,522	5,245	10,767
Restricted receivables	33,916	--	33,916
Accounts receivable (net of allowance of \$729)	75,552	50,575	126,127
Due from other funds - restricted	41,083	--	41,083
Due from other funds	2,875	6,252	9,127
Bond discount	--	5,531	5,531
Total Current Assets	<u>1,068,093</u>	<u>821,880</u>	<u>1,889,973</u>
OTHER ASSETS			
Amortizable bond fees	25,897	--	25,897
Capital assets, net of accumulated depreciation	4,177,738	752,423	4,930,161
Total Assets	<u>\$ 5,271,728</u>	<u>\$ 1,574,303</u>	<u>\$ 6,846,031</u>
LIABILITIES			
CURRENT LIABILITIES			
Accounts payable	\$ 21,405	\$ 65,502	\$ 86,907
Due to other funds - current	--	24,587	24,587
Accrued wages, vacation, and sick pay	2,906	3,870	6,776
Current portion of leases and notes payable	195,000	590,000	785,000
Total Current Liabilities	<u>219,311</u>	<u>683,959</u>	<u>903,270</u>
NONCURRENT LIABILITIES			
Long-term obligations net of current portion	425,104	--	425,104
Due to other funds	--	32,031	32,031
Bond to be paid from restricted assets	424,896	--	424,896
Total Liabilities	<u>\$ 1,069,311</u>	<u>\$ 715,990</u>	<u>\$ 1,785,301</u>
NET ASSETS			
Investment in capital assets, net of related debt	\$ 2,993,531	\$ 752,423	\$ 3,745,954
Unrestricted	942,151	105,890	1,048,041
Restricted	266,735	--	266,735
Total Net Assets	<u>\$ 4,202,417</u>	<u>\$ 858,313</u>	<u>\$ 5,060,730</u>

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS

For the year ended March 31, 2004

	Sewer Fund	Water Fund	Total Proprietary Funds
Operating Revenues:			
Water and sewage services	\$ 317,466	\$ 187,279	\$ 504,745
Sewer billing charges	4,967	--	4,967
Hydrant rental	--	5,110	5,110
Tap-ins	10,000	10,000	20,000
Miscellaneous	618	5,139	5,757
Total Operating Revenues	<u>333,051</u>	<u>207,528</u>	<u>540,579</u>
Operating Expenses:			
Contract services	182,900	--	182,900
Salaries and wages	14,726	45,959	60,685
Utilities	1,306	10,508	11,814
Professional services	23,920	13,058	36,978
Supplies	1,025	6,254	7,279
Repairs and maintenance	8,757	6,149	14,906
Payroll taxes and benefits	4,642	20,040	24,682
Depreciation	168,909	27,521	196,430
Administrative fee	8,019	8,000	16,019
Insurance	5,402	6,970	12,372
Dues	--	1,199	1,199
Transportation	1,569	1,745	3,314
Training	--	290	290
Printing	--	1,554	1,554
Miscellaneous	2,272	850	3,122
Total Operating Expenses	<u>423,447</u>	<u>150,097</u>	<u>573,544</u>
OPERATING INCOME (LOSS)	<u>(90,396)</u>	<u>57,431</u>	<u>(32,965)</u>
Nonoperating Revenue (Expense):			
Debt service revenue	210,848	--	210,848
Interest revenue	5,748	1,020	6,768
Bond interest expense and agent fees	(38,610)	(1,874)	(40,484)
Total nonoperating revenue (expenses)	<u>177,986</u>	<u>(854)</u>	<u>177,132</u>
INCOME BEFORE CONTRIBUTIONS	<u>87,590</u>	<u>56,577</u>	<u>144,167</u>
Capital contributions	50,000	--	50,000
CHANGE IN NET ASSETS	<u>137,590</u>	<u>56,577</u>	<u>194,167</u>
Net Assets at April 1, 2003	<u>4,064,827</u>	<u>801,736</u>	<u>4,866,563</u>
Net Assets at March 31, 2004	<u>\$ 4,202,417</u>	<u>\$ 858,313</u>	<u>\$ 5,060,730</u>

See accompanying notes.



VILLAGE OF ARMADA

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

For the year ended March 31, 2004

	Sewer Fund	Water Fund	Total Proprietary Funds
Cash Flows From Operating Activities:			
Receipts from customers	\$ 323,709	\$ 194,279	\$ 517,988
Payments to suppliers	(238,098)	(51,691)	(289,789)
Payments to employees	(15,861)	(46,840)	(62,701)
Other receipts (payments)	--	4,847	4,847
Net Cash Provided By Operating Activities	<u>69,750</u>	<u>100,595</u>	<u>170,345</u>
Cash Flows From Capital and Related Financing Activities:			
Acquisition of capital assets	(109,726)	(165,253)	(274,979)
Principal paid on capitalized lease	(175,000)		(175,000)
Interest paid on capitalized lease and bonds	(38,610)	(1,506)	(40,116)
Capital contributions	50,000		50,000
Bond proceeds	--	590,000	590,000
Bond discount	--	(5,900)	(5,900)
Debt service revenue	210,848		210,848
Net Cash Provided By (Used In) Capital and Related Financing Activities	<u>(62,488)</u>	<u>417,341</u>	<u>354,853</u>
Cash Flows From Investing Activities:			
Interest and dividends on investments	5,748	1,020	6,768
Net Cash Provided By Investing Activities	<u>5,748</u>	<u>1,020</u>	<u>6,768</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	<u>13,010</u>	<u>518,956</u>	<u>531,966</u>
Cash and Cash Equivalents at April 1, 2003	896,135	235,321	1,131,456
CASH AND CASH EQUIVALENTS AT MARCH 31, 2004	<u><u>\$ 909,145</u></u>	<u><u>\$ 754,277</u></u>	<u><u>\$ 1,663,422</u></u>
Reconciliation of Operating Income to Net Cash Provided by Operating Activities:			
Operating income (loss)	\$ (90,396)	\$ 57,431	\$ (32,965)
Adjustments to Reconcile Operating Income (Loss) to Net Cash Provided by Operating Activities			
Depreciation and amortization	168,909	27,521	196,430
Change in Assets and Liabilities			
Accounts receivable	(9,342)	(8,402)	(17,744)
Prepaid expenses	(5,522)	(5,245)	(10,767)
Due from other funds	433	(6,252)	(5,819)
Accounts payable	6,803	64,262	71,065
Due to other funds	--	(27,839)	(27,839)
Accrued expenses	(1,135)	(881)	(2,016)
Net Cash Provided by Operating Activities	<u><u>\$ 69,750</u></u>	<u><u>\$ 100,595</u></u>	<u><u>\$ 170,345</u></u>

See accompanying notes.



VILLAGE OF ARMADA

FIDUCIARY FUNDS - STATEMENT OF NET ASSETS

For the year ended March 31, 2004

	Current Tax Collection Fund			
	Balance April 1, 2003	Additions	Deductions	Balance March 31, 2004
<u>ASSETS</u>				
Cash	\$ 2,576	\$ 628,643	\$ 630,562	\$ 657
Certificate of deposit	124,970	3,289	--	128,259
Accrued interest receivable	420	--	420	--
TOTAL ASSETS	<u>\$ 127,966</u>	<u>\$ 631,932</u>	<u>\$ 630,982</u>	<u>\$ 128,916</u>
<u>LIABILITIES</u>				
Due to other funds	<u>\$ 127,966</u>	<u>\$ 634,821</u>	<u>\$ 633,871</u>	<u>\$ 128,916</u>

See accompanying notes.



VILLAGE OF ARMADA

GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2004

	Budgeted Amounts		Actual	Variance
	Original	Final	Amounts	Favorable (Unfavorable) Final to Actual
Revenues:				
Tax collections	\$ 370,714	\$ 370,714	\$ 380,669	\$ 9,955
County pass-through reimbursement grant	52,000	52,000	2,137	(49,863)
Distributions from State of Michigan	146,412	146,412	171,770	25,358
Licenses, permits, fines, and fees	36,324	36,324	46,443	10,119
Interest earned	7,000	7,000	10,985	3,985
Miscellaneous revenue	17,007	17,007	36,129	19,122
Proceeds from lease	74,430	74,430	74,430	--
Intergovernmental	18,800	18,800	18,800	--
TOTAL REVENUES	722,687	722,687	741,363	18,676
Expenditures:				
Legislative	14,400	14,400	13,243	1,157
General government	162,347	162,347	163,118	(771)
Public safety	323,715	323,715	321,091	2,624
Community and economic development	8,825	8,825	2,179	6,646
Public works	80,780	80,780	144,311	(63,531)
Recreation	3,400	3,400	736	2,664
Other	86,318	86,318	92,232	(5,914)
Debt service - principal	14,829	14,829	33,554	(18,725)
- interest	--	--	1,255	(1,255)
TOTAL EXPENDITURES	694,614	694,614	771,719	(77,105)
Other Financing Uses:				
Transfers to other funds	3,889	3,889	--	3,889
TOTAL EXPENDITURES AND OTHER FINANCING USES	698,503	698,503	771,719	(73,216)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	24,184	24,184	(30,356)	(54,540)
Net Effect of Change in Accounting Principle	--	--	6,294	6,294
Fund Balance at April 1, 2003	372,386	372,386	372,386	--
FUND BALANCE AT MARCH 31, 2004	\$ 396,570	\$ 396,570	\$ 348,324	\$ (48,246)

See accompanying notes.



VILLAGE OF ARMADA

**MAJOR STREET FUND
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE -
BUDGET (GAAP BASIS) AND ACTUAL**

For the year ended March 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 69,433	\$ 69,433	\$ 72,407	\$ 2,974
Interest earned	1,500	1,500	932	(568)
Total Revenues	<u>70,933</u>	<u>70,933</u>	<u>73,339</u>	<u>2,406</u>
Expenditures:				
Street construction	--	--	39,098	(39,098)
Routine maintenance	47,206	47,206	38,126	9,080
Snow and ice control	5,166	5,166	4,197	969
Administrative	1,000	1,000	1,940	(940)
Miscellaneous	3,120	3,120	3,753	(633)
Total Expenditures	<u>56,492</u>	<u>56,492</u>	<u>87,114</u>	<u>(30,622)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	14,441	14,441	(13,775)	(28,216)
Fund Balance at April 1, 2003	209,869	209,869	209,869	--
FUND BALANCE AT MARCH 31, 2004	\$ <u>224,310</u>	\$ <u>224,310</u>	\$ <u>196,094</u>	\$ <u>(28,216)</u>

See accompanying notes.



VILLAGE OF ARMADA

LOCAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2004

	Budgeted Amounts		Actual	Variance Favorable (Unfavorable) Final to Actual
	Original	Final		
Revenues:				
Distributions from State Motor Vehicle Highway Fund	\$ 24,460	\$ 24,460	\$ 25,560	\$ 1,100
Interest earned	100	100	88	(12)
Total Revenues	<u>24,560</u>	<u>24,560</u>	<u>25,648</u>	<u>1,088</u>
Other Financing Sources:				
Transfers from other funds	<u>15,000</u>	<u>15,000</u>	<u>15,000</u>	<u>--</u>
TOTAL REVENUES AND OTHER FINANCING SOURCES	<u>39,560</u>	<u>39,560</u>	<u>40,648</u>	<u>1,088</u>
Expenditures:				
Routine maintenance	44,652	44,652	44,087	565
Snow and ice control	4,166	4,166	3,694	472
Administrative	1,500	1,500	2,500	(1,000)
Miscellaneous	6,180	6,180	5,216	964
Total Expenditures	<u>56,498</u>	<u>56,498</u>	<u>55,497</u>	<u>1,001</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(16,938)	(16,938)	(14,849)	2,089
Fund Balance at April 1, 2003	27,685	27,685	27,685	--
FUND BALANCE AT MARCH 31, 2004	<u>\$ 10,747</u>	<u>\$ 10,747</u>	<u>\$ 12,836</u>	<u>\$ 2,089</u>

See accompanying notes.



VILLAGE OF ARMADA

MUNICIPAL STREET FUND STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE - BUDGET (GAAP BASIS) AND ACTUAL

For the year ended March 31, 2004

	Budgeted Amounts		Actual	Variance
	Original	Final		Favorable (Unfavorable) Final to Actual
Revenues:				
Current tax collections	\$ 148,286	\$ 148,286	\$ 152,261	\$ 3,975
Interest earned	2,048	2,048	1,746	(302)
Sidewalk construction	12,000	12,000	16,685	4,685
TOTAL REVENUES	162,334	162,334	170,692	8,358
Expenditures:				
Administrative	1,024	1,024	1,870	(846)
Sidewalk construction	40,960	40,960	32,626	8,334
Street lights	27,136	27,136	24,910	2,226
Miscellaneous	--	--	3	(3)
Total Expenditures	69,120	69,120	59,409	9,711
Other Financing Uses:				
Transfers to other funds	15,000	15,000	15,000	--
TOTAL EXPENDITURES AND OTHER FINANCING USES	84,120	84,120	74,409	9,711
EXCESS OF REVENUES OVER EXPENDITURES	78,214	78,214	96,283	18,069
Fund Balance at April 1, 2003	472,177	472,177	472,177	--
FUND BALANCE AT MARCH 31, 2004	\$ 550,391	\$ 550,391	\$ 568,460	\$ 18,069

See accompanying notes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS

March 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

DESCRIPTION OF VILLAGE OPERATIONS AND FUND TYPES: The Village of Armada covers an area of one square mile. The Village operates under an elected President, Clerk, Treasurer, and Board of six Trustees and provides services, including law enforcement, to its residents (approximately 1,700).

REPORTING ENTITY: The financial reporting entity consists of the primary government of the Village of Armada and its discretely presented component unit. GASB Statement No. 14, as amended by GASB 39, states that the financial reporting entity consists of (a) the primary government; (b) organizations for which the primary government is financially accountable; and (c) other organizations for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete. The criteria for determining the financial reporting entity are separately elected governing body, legally separate entity, fiscally independent, ability to appoint voting majority of governing body, ability to impose its will, and potential for benefit or burden. Certain other organizations warrant inclusion as part of the financial reporting entity because of the nature and significance of their relationship with the primary government, including their ongoing financial support of the primary government or its other component units. A legally separate, tax-exempt organization would be reported as a component unit of reporting entity if all of the following criteria are met:

1. The economic resources received or held by the separate organization are entirely or almost entirely for the direct benefit of the primary government, its component units, or its constituents.
2. The primary government is entitled to, or has the ability to otherwise access, a majority of the economic resources received or held by the separate organization.
3. The economic resources received or held by an individual organization that the specific primary government, or its component units, is entitled to, or has the ability to otherwise access, are significant to that primary government.

Using this criteria, the Downtown Development Authority has been determined to be a component unit of the Village of Armada.

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS
(Continued)

March 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Separate financial statements are provided for governmental funds, proprietary funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

MEASUREMENT FOCUS, BASIS OF ACCOUNTING AND FINANCIAL STATEMENT PRESENTATION: The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the fiduciary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within sixty days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Property taxes and other revenues are recognized in the accounting period when they become measurable and available to finance operations. Properties are assessed as of December 31, and the related property taxes are levied and become a lien on the following July 1. These taxes are due on September 14, with a final collection date of February 28, before they are added to the county tax rolls.

Revenues earned and susceptible to accrual are considered available and recognized if received within sixty days after the year end.

The government reports the following major governmental funds:

GENERAL FUND - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, protective services, and other intergovernmental revenues.

SPECIAL REVENUE FUNDS - The Major Street Fund, Local Street Fund, and Municipal Street Fund are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The government reports the following major proprietary funds:

ENTERPRISE FUNDS - The Water Supply and Sewage Disposal System Funds report operations that provide services which are financed by user charges or activities where periodic measurement of net income is appropriate for capital maintenance, public policy, management control, or other purposes.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS
(Continued)

March 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the government's water and sewer function and various other functions of the government. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned. Residual balances between the business-type activities and the governmental activities are reported as "internal balances."

Amounts reported as program revenue include: (1) charges to customers or applicants for goods, services or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services and producing and delivering services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relate to charges to customers for sales and services. The water and sewer fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected not to follow private sector standards issued after November 30, 1989, for its business type activities.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenditures, and expenses during the reporting period. Actual results could differ from those estimates.

ASSETS, LIABILITIES, AND NET ASSETS

BANK DEPOSITS AND INVESTMENTS: Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

RECEIVABLES AND PAYABLES: In general, outstanding balances between funds are reported as "due to/from other funds." All trade and property tax receivables are shown net of allowance for uncollectible amounts.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS
(Continued)

March 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

INVENTORIES AND PREPAID ITEMS: Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

CAPITAL ASSETS: Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial, individual cost of more than \$1,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Infrastructure assets acquired prior to April 1, 2003, have not been capitalized and are omitted from the Statement of Net Assets.

Assets are depreciated using the straight-line method over the following useful lives:

Buildings	20 years
Water and Sewer System	20-40 years
Roads and Sidewalks	20 years
Machinery and Equipment	5-10 years
Water and Sewer Plant and Equipment	20 years

COMPENSATED ABSENCES: It is the policy of the Village to permit employees to accumulate a limited amount of earned, but unused, vacation leave. This leave will be paid upon separation from Village service. In governmental funds, accrued vacation leave has been recorded for the current cost of earned, but unused, vacation leave. Proprietary funds accrue vacation leave in the period it is earned. Employees can accumulate up to 30 sick days. Upon termination, a formula is used to determine the unused sick days to be paid. Any amounts earned and unused above 30 days are paid annually each April 1.

All vacation and vested sick pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

LONG-TERM OBLIGATIONS: In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

FUND EQUITY: In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

It is the policy of the Village to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

NOTE 2: STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS: P.A. 621 of 1978, section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets, as amended by the Village Council, were adopted at the departmental level and are shown in the supplemental schedules to this statement. Budget amendments require approval from a majority of the Village Council. Actual expenditures exceeded those budgeted as follows:

General Fund

Village Treasurer	\$ 3,880
Village Clerk	2,300
Protective Inspections	1,084
Other Expenditures	5,914
Department of Public Works	63,531
Debt Service	19,980

Major Street Fund

Expenditures	\$ 30,622
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VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 3: CASH AND INVESTMENTS

Deposits are carried at cost. Deposits are at Michigan banks in the name of the Village of Armada Treasurer. Michigan Act 20 P.A. 1943 allows a village to make various investments with public monies including, but not limited to, the following:

1. Direct bonds and obligations of the U.S., its agencies or instrumentalities.
2. Certificates of deposit, savings accounts with banks, savings and loan associations, or credit unions which are insured with the applicable federal agency and located in the State of Michigan.
3. Commercial paper - rated within 2 highest rate classifications by at least 2 rating services and matures not later than 270 days.
4. U.S. or agency repurchase agreements.
5. Mutual funds - investments which local unit can make directly.
6. Bankers' acceptances of U.S. banks.
7. Obligations of the State of Michigan or any of its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service.

Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion Number 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan.

The deposits of the Village are in accordance with statutory authority.

Deposits and investments are recorded at cost. The carrying amounts are included on the balance sheet as "Cash," "Investments," and "Restricted assets."

The GASB Statement No. 3 risk disclosures for the Village's cash deposits are as follows:

	Insured (FDIC)	Uninsured and Uncollateralized	Carrying Amount	Bank Balance/ Market Value
<u>Deposits</u>				
Demand deposits	\$100,000	\$2,244,681	\$2,269,274	\$2,344,681
Certificate of deposit	213,832	28,259	242,091	242,091
Cash on hand	--	50	50	--
	<u>313,832</u>	<u>2,272,990</u>	<u>2,511,415</u>	<u>2,586,772</u>
<u>Investments</u>				
Mutual funds - nonrisk category			334,835	
GRAND TOTAL CASH AND INVESTMENTS			<u>\$2,846,250</u>	



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 4: RESTRICTED ASSETS, RELATED CURRENT LIABILITIES, AND RESTRICTED NET ASSETS - PROPRIETARY FUNDS

The Village has two ordinances requiring the collection of fees for specific use. Accumulated resources are reported as restricted investments and restricted assets on the balance sheet.

	<u>Sewer</u>
1987 Sewer Ordinance:	
Debt service	\$306,671
Asset replacement account	266,735
1991 Sewer Ordinance - debt service	<u>118,225</u>
Total Restricted Assets	691,631
Less: Liabilities to be paid from restricted assets	(424,896)
Restricted Net Assets at March 31, 2004	<u>\$266,735</u>

In addition, \$578,071 of Water Fund assets are restricted for use in the construction of a new water treatment facility.

NOTE 5: FIXED ASSETS

Governmental Activities Fixed Assets

A summary of changes in governmental fixed assets follows:

	Balance 3/31/03	Additions	Disposals	Balance 3/31/04
Land	\$ 58,951	\$ --	\$ --	\$ 58,951
Buildings	169,795	--	--	169,795
DPW equipment	201,174	--	--	201,174
Police Department equipment	103,444	--	--	103,444
Highway maintenance equipment	5,743	74,430	--	80,173
Streets	--	71,724	--	71,724
Administration equipment	<u>36,929</u>	<u>3,609</u>	--	<u>40,538</u>
	<u>\$576,036</u>	<u>\$149,763</u>	<u>\$ --</u>	725,799
Less: accumulated depreciation				(388,310)
				<u>\$337,489</u>

Governmental activity depreciation, included on the Statement of Activities, was allocated as follows:

Public Safety	\$15,075
Public Works	24,997
General Government	<u>15,416</u>
Total	<u>\$55,488</u>



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 5: FIXED ASSETS (Continued)

Water Supply and Sewage Disposal Systems

A summary of the Water Supply and Sewage Disposal System's fixed assets follows:

	<u>Water Fund</u>	<u>Sewer Fund</u>		
	<u>Village</u>	<u>Village</u>	<u>Capitalized</u>	<u>Total</u>
	<u>Assets</u>	<u>Assets</u>	<u>Leases</u>	
Land	\$ --	\$ 8,567	\$ --	\$ 8,567
Machinery and equipment	147,203	108,001	--	255,204
Plant, property, and equipment	1,003,210	1,228,889	--	2,232,099
Capitalized lease	--	--	5,279,503	5,279,503
Total	1,150,413	1,345,457	5,279,503	7,775,373
Less: Accumulated depreciation	(397,990)	(578,976)	(1,868,246)	(2,845,212)
	<u>\$ 752,423</u>	<u>\$ 766,481</u>	<u>\$3,411,257</u>	<u>\$4,930,161</u>

Depreciation included in operating expenses for the period amounted to \$27,521 in the Water Fund and \$168,909 (including capitalized lease amortization of \$126,074) in the Sewer Fund. Depreciation is being calculated using the straight-line method over a period of 5-40 years. Accumulated depreciation includes accumulated amortization on capitalized leases of \$1,868,246.

In June of 1999, the Village refinanced a current bond issue. A redemption premium and costs to issue the new bonds totaled \$72,040. These costs are being amortized over 89 months and amortization at March 31, 2004, totaled \$9,713.

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS

LEASE PURCHASE AGREEMENTS - GENERAL OBLIGATION

During 1987, the Village entered into a contract with Macomb County for the acquisition and construction of a wastewater facility under the provision of Act 342, Public Acts of Michigan, 1939, as amended. The County issued \$1,600,000 in bonds secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County owns the facility and leases to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule. The imputed interest rate was 7.06714%. The Village residents approved an unlimited ad valorem tax to fund this obligation.

In June, 1999, the County refinanced the underlying debt with a refunding bond issue. In conjunction with the refunding, the County amended this lease to provide the Village with the benefit of the interest savings from this refunding. The new imputed rate is 4.39136%.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The minimum future lease payments, excluding agent fees, are \$570,875. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2005	5/1/04	\$11,290	11/1/04	\$146,290	\$157,580
March 31, 2006	5/1/05	8,388	11/1/05	138,387	146,775
March 31, 2007	5/1/06	5,560	11/1/06	135,560	141,120
March 31, 2008	5/1/07	2,700	11/1/07	122,700	125,400
Total Future Minimum Lease Payments					570,875
Less: Imputed Interest					(55,875)
Net Present Value of Future Minimum Lease Payments					<u>\$515,000</u>

The Village entered into a contract with Macomb County for the acquisition and construction of a sewer separation system under Act No. 342, Public Acts of Michigan, 1939, as amended. The County has issued \$1,170,000 in bonds purchased by the Michigan Municipal Bond Authority, secured primarily by the full faith and credit contractual obligation of the Village of Armada. The County shall be the owner of the facility and lease to the Village for a period not to exceed 40 years or when the bonds are retired, whichever is earlier. Annual lease payments are the amounts necessary to pay the interest, principal, and agent fees according to the bond maturity schedule.

The minimum future lease payments, excluding agent fees, are \$579,600. The minimum lease payments for the next five years are as follows:

<u>Fiscal Year</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Due Date</u>	<u>Amount Due</u>	<u>Total Annual Requirement</u>
March 31, 2005	4/1/04	\$5,300	10/1/04	\$65,300	\$ 70,600
March 31, 2006	4/1/05	4,700	10/1/05	64,700	69,400
March 31, 2007	4/1/06	4,100	10/1/06	64,100	68,200
March 31, 2008	4/1/07	3,500	10/1/07	68,500	72,000
March 31, 2009	4/1/08	2,850	10/1/08	72,850	75,700
After March 31, 2009					223,700
Total Future Minimum Lease Payments					579,600
Less: Imputed Interest					(49,600)
Net Present Value of Future Minimum Lease Payments					<u>\$530,000</u>

In March of 2004, the Village issued a note in the amount of \$590,000 to acquire and construct water supply improvements. This note bears interest at 2% and is due November 15, 2004. A discount on the note in the amount of \$5,900 is being amortized over eight months. Amortization for the period amounted to \$369. The proceeds of this note are to be used to pay preliminary costs of a new water filtration plant. This note is to be retired using the proceeds of the final bond issue for this project.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 6: LEASE PURCHASE AGREEMENTS AND OTHER LONG-TERM INDEBTEDNESS (Continued)

The Village entered into a lease purchase agreement for a 2004 F-750 dump truck. The minimum lease payments are as follows:

	<u>Fiscal Year</u>	<u>Due Date</u>	<u>Total Annual Requirements</u>
Dump Truck	March 31, 2005	7/15/04	\$14,829
	March 31, 2006	7/15/05	14,829
	March 31, 2007	7/15/06	14,829
	March 31, 2008	7/15/07	14,829
	March 31, 2009	7/15/08	14,829
	Total Future Minimum Lease Payments		<u>\$74,145</u>

CHANGE IN INDEBTEDNESS

	<u>Payable 3/31/03</u>	<u>Increase</u>	<u>(Decrease)</u>	<u>Payable 3/31/04</u>
Capitalized lease obligation	\$ 590,000	\$ --	(\$ 60,000)	\$ 530,000
Capitalized lease obligation	630,000	--	(115,000)	515,000
DWRF Construction note	--	590,000	--	590,000
Total Proprietary Funds Debt	<u>1,220,000</u>	<u>590,000</u>	<u>(175,000)</u>	<u>1,635,000</u>
Accrued sick pay	14,188	--	(14,188)	--
Installment loan	1,860	--	(1,860)	--
Capitalized lease - two police cars	18,725	--	(18,725)	--
Capitalized lease - dump truck	--	74,430	(14,829)	59,601
Total Governmental Activities Debt	<u>34,773</u>	<u>74,430</u>	<u>(49,602)</u>	<u>59,601</u>
Total Indebtedness	<u>\$1,254,773</u>	<u>\$664,430</u>	<u>(\$224,602)</u>	<u>\$1,694,601</u>

Total interest expense for the Village for the year was \$41,739.

DEBT MARGIN

Michigan Compiled Law limits indebtedness incurred by villages to 10% of the total taxable value of the village. For the fiscal year 03/04, the taxable value of the Village of Armada was \$39,561,304; therefore, the legal debt margin is \$3,956,000.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS (Continued)

March 31, 2004

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

During the course of operations, numerous transactions occur between individual funds. These receivables and payables are classified as "Due from other funds," "Due to other funds," or "Restricted assets" on the balance sheet. The amounts of interfund receivables and payables are as follows:

	<u>Interfund Receivable</u>		<u>Interfund Payable</u>
Water Fund	\$ 6,252		
Local Street Fund	1,428		
Municipal Street Fund	36,211		
	<u>\$ 43,891</u>	General Fund	<u>\$ 43,891</u>
Sewer Fund	\$ 2,875		
General Fund	53,743		
	<u>\$ 56,618</u>	Water Fund	<u>\$ 56,618</u>
General Fund	\$ 46,815		
Sewer Fund	41,083		
Municipal Street Fund	41,018		
	<u>\$128,916</u>	Tax Fund	<u>\$128,916</u>
General Fund	<u>\$ 7,500</u>	DDA Fund	<u>\$ 7,500</u>

Interfund receivables and payables are eliminated in the entity-wide presentations, within the governmental and business-type fund groups.

The amount due to the General Fund from the Water Fund were monies loaned to complete the water tower construction. The balance of this loan at March 31, 2004, totaled \$53,743. The loan is being retired by monthly installments of \$2,121 and bears interest at 5% per annum.

The amounts shown above of \$41,083 as due to the Sewer Fund is included as restricted assets as presented on the Statement of Net Assets - Proprietary Funds.

NOTE 8: INTERFUND TRANSFERS

Operating transfers during the year ended March 31, 2004, are as follows:

	<u>Transfers In</u>		<u>Transfers Out</u>
Local Street Fund	<u>\$15,000</u>	Municipal Street Fund	<u>\$15,000</u>

These transfers have been eliminated in the entity-wide Statement of Activities.

VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS
(Continued)

March 31, 2004

NOTE 9: DEFERRED COMPENSATION PLAN

The Village offers its employees a deferred compensation plan created in accordance with IRC Section 457. The plan, available to all employees, permits them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death or unforeseeable emergency.

All amounts of compensation deferred under the plan, all property and rights purchased with such amounts, and all income attributable to such amounts, property, or rights are held in trust for the exclusive benefit of participants and their beneficiaries.

It is the opinion of the Village's legal counsel that the Village has no liability for losses under the plan but does have the duty of care that would be required of an ordinary prudent investor.

NOTE 10: CONTINGENT LIABILITIES

The Sewer Fund is billed annually for the operations of the sewer plant which is currently under contract with an independent company. An estimated payment is made monthly with an annual determination in June of each year of any additional amounts due. No amount has been recorded at March 31, 2004, and an annual determination has not been computed.

The Village has been named in a lawsuit involving a developer. The developer claims that the Village is responsible for the repair of certain roadways. Residents of the Village have filed two lawsuits against the Village. The residents allege wrongdoing and conspiracy. Any potential liability as a result of these suits is not determinable at this time. No liability or reserve has been recorded for these suits as of March 31, 2004.

NOTE 11: RISK FINANCING

The Village of Armada is exposed to various risks of loss related to theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by insurance purchased from independent third parties. Settled claims from these risks have not exceeded insurance coverage for the past three years.

NOTE 12: RESERVED FUND BALANCE

As of March 31, 2004, the General Fund Balance Sheet reflects a receivable from the Water Fund. Governmental accounting requires fund balances be restricted for all amounts not available to pay current obligations. Therefore, the noncurrent portion of the amount due to the General Fund of \$53,743 is presented as a restriction to fund balance.



VILLAGE OF ARMADA

NOTES TO FINANCIAL STATEMENTS
(Continued)

March 31, 2004

NOTE 13: CHANGE IN ACCOUNTING PRINCIPLE

The Village has adopted GASB Interpretation #6 for its accounting for vested vacation accruals for current employees. Previously, such amounts were accrued at year end in the governmental funds. The new accounting principle does not accrue such liabilities at year end in the governmental funds, as such, the opening balance in accrued vacation has increased fund balance. All compensated absences have been accrued in the entity-wide Statement of Net Assets.



SUPPLEMENTAL INFORMATION



McBride, Manley
& Müller P.C.

VILLAGE OF ARMADA

GENERAL FUND - DETAILS OF REVENUES

For the year ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfav.)
Tax Collections:			
Current	\$ 370,714	\$ 380,669	\$ 9,955
County Pass-Through Reimbursement Grant	52,000	2,137	(49,863)
Distributions from State of Michigan:			
Revenue sharing	144,112	169,181	25,069
Liquor license fee	1,200	1,721	521
Act 302 funds	1,100	868	(232)
	146,412	171,770	25,358
Licenses, Permits, Fines, and Fees:			
Fines and forfeitures	26,624	31,210	4,586
Permits and licenses	9,700	15,233	5,533
	36,324	46,443	10,119
Other Revenues:			
Interest earned	7,000	10,985	3,985
Water, sewer, and street administration	18,800	18,800	--
Tower site rent	3,900	--	(3,900)
Proceeds from lease	74,430	74,430	--
Miscellaneous	13,107	36,129	23,022
	117,237	140,344	23,107
TOTAL REVENUES	\$ 722,687	\$ 741,363	\$ 18,676

See accompanying letter.



VILLAGE OF ARMADA

GENERAL FUND DETAILS OF EXPENDITURES

For the year ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfav.)
LEGISLATIVE			
Trustees' Fees	\$ 14,400	\$ 13,243	\$ 1,157
GENERAL GOVERNMENT			
Village Administration:			
Supplies and postage	\$ 5,500	\$ 4,246	\$ 1,254
Professional fees	38,750	39,381	(631)
Printing and publishing	3,000	2,595	405
Utilities	6,656	5,887	769
Dues and conferences	1,800	1,904	(104)
Transportation	100	77	23
Vehicle and equipment maintenance	2,000	1,419	581
Miscellaneous	3,500	2,141	1,359
Capital outlay	4,000	3,220	780
Hydrant rental	4,760	4,760	--
	<u>70,066</u>	<u>65,630</u>	<u>4,436</u>
Village President:			
Salary	<u>4,800</u>	<u>4,000</u>	<u>800</u>
Election Control:			
Wages	500	473	27
Supplies and other	<u>1,000</u>	<u>854</u>	<u>146</u>
	<u>1,500</u>	<u>1,327</u>	<u>173</u>
Village Clerk:			
Salaries - clerk	20,088	23,435	(3,347)
- clerical	27,851	26,599	1,252
Benefits	13,232	13,476	(244)
Transportation	50	41	9
Dues	100	119	(19)
Miscellaneous	<u>75</u>	<u>26</u>	<u>49</u>
	<u>61,396</u>	<u>63,696</u>	<u>(2,300)</u>

See accompanying letter.



VILLAGE OF ARMADA

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfav.)
<u>GENERAL GOVERNMENT (Continued)</u>			
Village Treasurer:			
Salaries - treasurer	\$ 22,360	\$ 26,366	\$ (4,006)
Supplies and postage	1,400	1,595	(195)
Transportation	75	37	38
Dues	150	75	75
Capital outlay	550	389	161
Miscellaneous	50	3	47
	<u>24,585</u>	<u>28,465</u>	<u>(3,880)</u>
TOTAL GENERAL GOVERNMENT	\$ <u>162,347</u>	\$ <u>163,118</u>	\$ <u>(771)</u>
<u>PUBLIC SAFETY</u>			
Police:			
Salaries	\$ 223,500	\$ 230,340	\$ (6,840)
Clothing allowance	3,500	3,277	223
Supplies	2,309	1,675	634
Insurance - benefits	31,406	41,473	(10,067)
Professional services	15,000	10,273	4,727
Utilities	6,500	7,956	(1,456)
Vehicle expense	6,000	5,529	471
Training	2,200	2,331	(131)
Capital outlay	18,000	--	18,000
Miscellaneous	500	125	375
Dues	1,500	887	613
Printing	600	167	433
Maintenance	4,700	7,974	(3,274)
	<u>315,715</u>	<u>312,007</u>	<u>3,708</u>
Protective Inspections:			
Salaries	7,400	6,299	1,101
Retainer	--	2,400	(2,400)
Dues and miscellaneous	100	385	(285)
Capital outlay	500	--	500
	<u>8,000</u>	<u>9,084</u>	<u>(1,084)</u>
TOTAL PUBLIC SAFETY	\$ <u>323,715</u>	\$ <u>321,091</u>	\$ <u>2,624</u>

See accompanying letter.



VILLAGE OF ARMADA

GENERAL FUND DETAILS OF EXPENDITURES (Continued)

For the year ended March 31, 2004

	Budget	Actual	Variance Favorable (Unfav.)
<u>COMMUNITY AND ECONOMIC DEVELOPMENT</u>			
Board of Appeals:			
Salaries	\$ 350	\$ --	\$ 350
Planning Commission	8,175	2,179	5,996
Construction Board	300	--	300
TOTAL COMMUNITY AND ECONOMIC DEVELOPMENT	\$ 8,825	\$ 2,179	\$ 6,646
<u>PUBLIC WORKS</u>			
Salaries	\$ 47,942	\$ 37,917	\$ 10,025
Benefits	15,483	13,954	1,529
Clothing allowance	3,000	2,711	289
Supplies	3,000	2,818	182
Transportation	102	--	102
Miscellaneous	4,500	6,322	(1,822)
Maintenance	4,500	3,589	911
Utilities	2,253	2,570	(317)
Capital outlay	--	74,430	(74,430)
TOTAL PUBLIC WORKS	\$ 80,780	\$ 144,311	\$ (63,531)
<u>RECREATION</u>			
Supplies and maintenance	\$ 1,400	\$ 486	\$ 914
Miscellaneous	1,000	250	750
Capital outlay	1,000	--	1,000
TOTAL RECREATION	\$ 3,400	\$ 736	\$ 2,664
<u>OTHER EXPENDITURES</u>			
Workers' compensation	\$ 2,000	\$ 6,930	\$ (4,930)
General insurance	14,000	40,209	(26,209)
Deferred compensation	--	12,032	(12,032)
Payroll taxes	26,258	27,529	(1,271)
Cable Commission	1,500	750	750
County pass-through reimbursed projects	40,000	2,136	37,864
Cable - WNEM	2,560	2,646	(86)
TOTAL OTHER EXPENDITURES	\$ 86,318	\$ 92,232	\$ (5,914)
<u>OTHER FINANCING USES</u>			
Transfers to other funds	\$ 3,889	\$ --	\$ 3,889

See accompanying letter.



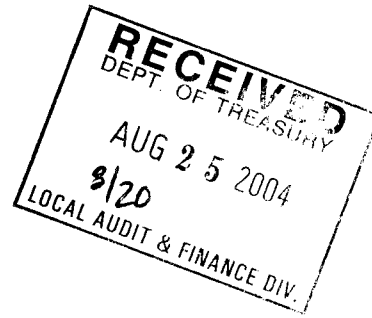
McBride, Manley & Miiller P.C.

Certified Public Accountants

GLEN E. MCBRIDE, C.P.A.

PATRICIA A. MANLEY, C.P.A.

RICHARD L. MILLER, C.P.A., M.S.T.



June 1, 2004

Village Council
Village of Armada
Armada, Michigan 48005

Honorable Members:

We have examined the financial statements of the Village of Armada for the year ended March 31, 2004, and have issued our report thereon dated June 1, 2004. Our examination included a study and evaluation of internal control to the extent we considered necessary in order to establish a basis for reliance on the accounting records. The following areas of internal accounting control could be improved, and we feel they warrant your consideration.

PAYROLL

All of the Village's employees have pay rates that are approved by contract or in the Board minutes. During our examination, we discovered instances where pay rates could not be found in contracts or traced to Board minutes. Care should be taken that pay rates reflect what has been approved. We also discovered instances where time cards were not signed by supervisors.

It is also important that payroll checks are issued after the check date. We found an instance where payroll checks were distributed and cashed before the check date.

PURCHASES

During our examination, we noted several vendor invoices that bore no indication that the footings and extensions had been verified prior to payment. The mathematical accuracy of vendor invoices should be verified prior to payment, and an indication of this procedure should appear on all paid invoices. Invoices should also show evidence that they were approved.

CASH RECEIPTS

During our examination, we noted instances where deposits were not made in a timely manner. Generally, deposits should be made daily and clear the bank within two or three days.

CONCLUSION

This report is intended solely for the information and use of the Village Council, management, and others within the Village. The restriction is not intended to limit the distribution of this report which is a matter of public record. We would like to express our appreciation and thanks to the Village officials and employees for their cooperation and many courtesies extended to us during our examination. We will be available to discuss these recommendations in detail or to assist in their implementations.

Respectfully submitted,

A handwritten signature in cursive script that reads "McBride, Manley & Miller".

McBRIDE, MANLEY & MILLER P.C.
Certified Public Accountants